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House GOP Sticks With Tax Cut Plans,

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Despite Reagan-Era Memories

By Eric Pianin

Washington Post Staff Writer

Haunted by the memory of the last time their party broke a tax pledge, House Republicans plan on keeping a campaign promise this week and passing their huge tax cut package.

Republican leaders believe they cannot risk abandoning a key part of their "Contract With America" because they remember the 1990 budget summit, when President George Bush broke his "Read my lips: No new taxes" campaign pledge and touched off a conservative rebellion within his own party that ultimately cost him the presidency.

House Ways and Means Committee Chairman Bill Archer (R-Tex.) said last week that despite rising opposition from Democrats and influential moderate Republicans senators, House Republicans remain committed to the \$188 billion tax cut package. If House Republicans were to renege on their promise, he said, "the criticism that exists today would double in decibels."

But in going ahead with the tax cut, Republicans also are haunted by another event: the Reagan budget plan of 1981, when Republicans and a handful of conservative southern Democrats pushed through President Ronald Reagan's experimental supply-side economic policy of huge tax cuts, and modest spending cuts that helped to usher in an era of record deficits.

Archer cautioned that Republicans will not repeat the Reagan-era blunder of enacting far-ranging tax cuts without offsetting the revenue losses with cuts in domestic spending.

Even so, Archer, House Speaker Newt Gingrich (R-Ga.) and other conservative leaders who plunged headlong into the supply-side experiment

14 years ago have retained an unshakable faith in the power of tax cuts to stimulate the economy and generate government revenues.

"There are many provisions in this tax package which I am convinced are going to create enough economic activity that they will generate more revenue, which will help us to get to a balanced budget," Archer said in an interview.

But Democrats and other Republicans who were present at the creation of the huge Reagan-era deficits are highly skeptical that the new GOP-controlled Congress has the fortitude to simultaneously slash taxes and put the government on a glide path to a balanced budget in seven years.

Rep. Sam Gibbons (Fla.), ranking Democrat on the House Ways and Means Committee, and scores of other Democrats argue that tax cuts cannot be justified when the economy is humming along and polls show that most Americans prefer deficit reduction to tax relief. Even the relatively modest tax cut proposals offered by President Clinton and House Minority Leader Richard A. Gephardt (D-Mo.) have generated little enthusiasm among rank-and-file Democrats.

"Sure, I'm for tax cuts, but I don't believe this is the time or place for them," said Rep. Charles W. Stenholm (D-Tex.), a leader of southern conservative Democrats. Stenholm and his fellow "boll weevils" aligned themselves with the Republicans in 1981 to pass Reagan's tax cut and budget, and then spent years atoning. "Our economy is not strong, but it's not weak either," Stenholm said. "I just think we ought to concentrate on getting the deficit down and not doing what some might think is the popular thing."

The GOP tax plan that emerged from the Ways and Means Committee

last month includes a \$500-per-child tax credit for families earning up to \$200,000 a year, a 50 percent reduction in the capital gains tax, a new individual retirement account for wealthier Americans, elimination of the marriage penalty tax, repeal of a tax increase on wealthier Social Security recipients and numerous write-offs and tax breaks for businesses and corporations.

The tax cuts would cost an estimated \$188.8 billion during the first five years, according to the congressional Joint Committee on Taxation. But because of the way the legislation is written, the cost of many of the provisions would explode in later years. Over the coming decade, the GOP plan would drain government coffers of \$630 billion, according to Treasury estimates. In short, the tax plan's costs would peak just when Congress and the White House will be struggling hardest to meet the balanced budget target.

Democratic leaders also charge that the GOP tax package has been heavily stacked in favor of the rich—an assertion Republicans hotly dispute—and that the offsetting spending cuts will be made largely in programs that help the poor.

"The Republicans believe in 'trickle down' economics," Gephardt said last week. "They believe in giving money to the people that are the most privileged in our society. And they believe that ultimately it will trickle down to the rest of the society."

Gingrich and Senate Majority Leader Robert J. Dole (R-Kan.) are committed to passing a major tax cut bill this year, but some moderate and fiscally conservative Republicans have threatened to oppose the plan in the House unless the cost of the tax credit is scaled back and they are given ironclad assurances that tax cuts would not take effect before Congress completes work on plans to balance the budget.

In the Senate, Finance Committee Chairman Bob Packwood (R-Ore.) and

Budget Committee Chairman Pete V. Domenici (R-N.M.), moderates who have vivid recollections of the deficit debacle of the Reagan era, have been opposed to a major tax package this year. Domenici has revealed plans to introduce a budget resolution next month designed to eliminate the deficit within seven years; it would not allow for a tax cut.

Packwood said yesterday he would consider a tax cut, but his top priority remains balancing the budget. He told CNN's "Evans and Novak" that he adamantly opposed the \$500-per-child tax credit—the centerpiece of the House bill—calling it "one of the worst ways to cut taxes . . . and to improve our economy." He said he would prefer a cut in tax rates.

Congressional Republicans got tremendous mileage out of the tax cut issue during last fall's congressional campaign, pledging to pass a middle-class tax cut that Clinton promised during his campaign but never delivered. Some Republicans also argue that a tax cut would be useful in forcing the government to downsize and get along with less revenue—echoing a Reagan administration theme.

But Democrats have used the GOP tax package as an excuse to revive the debate over "tax fairness," an issue they used effectively against Bush and the Republicans in the 1992 campaigns.

Democrats complain that nearly 52 percent of the overall benefit of the Republican tax cut package would go

to individuals and families making more than \$100,000 a year. According to a Treasury Department analysis, Americans with incomes above \$200,000 a year would get a 10 percent tax reduction, by far the biggest break for any income group.

A separate analysis by the liberal Center on Budget and Policy Priorities shows that the wealthiest 40 percent of the population would receive nearly two-thirds of the benefits of the children's tax credit. Children from families at the lower end of the economic ladder would receive only 3.5 percent of the benefits.

But Republicans, wielding analyses prepared by the Joint Committee on Taxation, argue that their package is fair and provides across-the-board re-

lief for people who work for a living.

"Despite the Democrats' attempt to use class warfare to pit one group of Americans against another," Archer said, "the facts show our job-creating tax cuts maintain and enhance the progressive nature of the tax code."

According to the joint committee figures, the tax cut bill would give taxpayers earning more than \$200,000 a year a tax break of less than 3 percent, while the largest tax cut, proportionately, would go to those families with annual incomes between \$30,000 and \$75,000.

The joint committee study also shows that under the GOP tax plan, the overall federal tax burden of Americans earning more than \$100,000 actually would rise slightly

by the turn of the century. Currently, those families pay 46.6 percent of total federal income and excise taxes, and by 2000 they would pay 46.8 percent.

In this high-stakes war of dueling statistics, both sides are correct, technically. But that is because Republicans and Democrats use widely different methods for evaluating, or "scoring," the proposed tax package.

For example, the Treasury and the Joint Committee on Taxation each recently revised the way they assess the impact of reductions in the capital gains tax. The change in the administration's methodology tends to magnify the benefits to the rich, while the change adopted by the joint committee tends to understate those benefits.